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HISTORY OF ECONOMIC DEFENSE SUPPORTBackground

Intelligence support to the policy-making and action agencies in the economic defense field was undertaken by the CIA in the spring of 1948 with the assignment of the responsibility to the Economic Division of ORE. This responsibility was transferred to the Economic Analysis Division of ORR when ORE was abolished in November 1950. When the Economic Analysis Division was split into an Analysis Division and an Economic Defense Division on 1 June 1952, economic defense intelligence support became the responsibility of the latter.

The economic defense program of the US Government has been based upon a number of NSC policy directives<sup>1/</sup> and Congressional enactments,<sup>2/</sup> the implementation of which required intelligence support, particularly intelligence about Soviet bloc economic capabilities and Soviet bloc needs for imports from the rest of the world. The need for intelligence was expressed in specific requests to CIA to participate on a continuing basis in support of various aspects of the economic defense program from policy-making to operating levels. It was also expressed

- <sup>1/</sup> Principal NSC directives: NSC decision of 17 Dec. 1947 to stop shipments of short supply or strategic commodities to the Soviet bloc; NSC 91/1; NSC 104/2; NSC 122/1; NSC 152/2 and 3.
- <sup>2/</sup> Basic legislation: Trading with the Enemy Act, 2 July 1940; Section 117(d) of the Economic Cooperation Act of 1948; Export Control Act of 1949 (Public Law 11, 81st Congress); "Cannon Amendment", Supplemental Appropriation Act of 1951, Sec. 1304 (Public Law 843, 81st Congress); "Kem Amendment", Third Supplemental Appropriation Act of 1951, Sec. 1302 (Public Law 45, 82nd Congress); Mutual Defense Assistance Control Act of 1951 (Public Law 213, 82nd Congress).

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specifically in NSC policy directives 104/2 and 152/3. Intelligence support for the program was recognized by the Agency as a part of its responsibility for production and coordination of economic intelligence on the Soviet bloc.

First participation in the economic defense program stemmed from a request by the Assistant Secretary of Commerce for International Affairs in the spring of 1948 for CIA assistance in the drafting of a list of strategic commodities for control of exports to the Soviet bloc. This early interagency work progressed through several stages: (1) preparation of an initial list for US control purposes; (2) drafting of lists for initial discussions with other countries for controls on an international basis; (3) refinement of the various lists through adoption of criteria for inclusion of items and definitions of the specific items. This refinement of the lists was necessary for the negotiations which were undertaken in the Paris Coordinating Committee (CoCom) beginning early in 1950. During this early period intelligence on the Soviet bloc economy was largely undeveloped. Nevertheless, because the bloc was passing through a difficult period of economic recovery, it was possible for industry and commodity specialists to compile a list of commodities which were generally agreed to be important to that area for development of its war-making capabilities.

With the enactment of the Export Control Act of 1949 (July, 1949) the Secretary of Commerce requested participation of CIA in the Advisory Committee on Requirements (ACR) -- later renamed the Advisory

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Committee on Export Policy (ACEP) -- and its operating committee and subcommittees. The DCI agreed to Agency participation and a staff member of the Economics Division in ORE was named to represent the Agency. Activities involved (a) the review of the short-supply commodities remaining under war-time controls to determine whether and to what extent they could be decontrolled, and (b) the development of the control lists of items significant to Soviet bloc war-potential for both US controls and for the negotiation of parallel action by aid-recipient countries. Intelligence support for this participation was drawn from industry, commodity and scientific intelligence specialists in various components of the Agency. By 1 June 1950 the US export control program was well advanced and the early stages in the development of the international control structure in CoCom were completed.

#### Principal Support Activities

The principal economic defense support activities may be summarized under two general headings: (1) providing the intelligence basis for the strategic ratings of items considered for inclusion on the export control lists<sup>1/</sup> and for revisions of these lists; (2) providing intelligence to the action agencies for the enforcement of controls. The latter includes intelligence for the development of ancillary measures -- financial, shipping, transshipment -- as well as intelligence on transactions which may result in diversions of controlled items to the bloc in violation of existing control regulations.

<sup>1/</sup> US export control lists; International (CoCom) lists; China Control list; Battle Act lists.

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In connection with these support activities a number of other functions are performed. Direct participation in interagency economic defense committees and working groups has been a means of making intelligence available directly to policy-making and action agencies in connection with specific problems. (See attached chart.) In addition, on many occasions intelligence officers have rendered on-the-spot support to US delegations conducting negotiations abroad on economic defense matters. There has been active participation in the preparation of collection requirements for economic defense, for both the overt and covert collection agencies. There should also be mentioned the servicing of requests from various parts of CIA for information about the economic defense program, status and accomplishments of international negotiations in this field, and other related information. These requests have included requests from the Legislative Liaison Office for information to answer questions asked by Congressmen. Finally, papers submitted to the NSC Planning Board and the NSC are reviewed for the DCI and DD/I.

In the discharge of the coordination-of-intelligence function, certain mechanisms have been set up for the interagency review and production of intelligence for economic defense and for bringing representatives of the intelligence agencies and action agencies into closer working relationships. Specifically, the Intelligence Working Group and the Diversion Control Net (both discussed in later sections) were set up to accomplish these purposes with respect to particular activities.

The history of intelligence support for these activities is outlined in the following sections.

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Intelligence for the Export Control Lists

Exports of strategic goods from the Free World to the Soviet bloc are controlled through a program of embargo on selected items, quantitative restrictions on additional items and surveillance over certain other items not subject to embargo or quota. The security controls are administered through a system of export licensing based on export control lists. The items are placed on the lists, redefined or deleted in accordance with criteria designed to identify items that are of strategic importance to the Soviet bloc.

In the development and subsequent revision of the security export control lists, <sup>1/</sup> the action agencies urgently need intelligence on the Soviet bloc with respect to the particular item or items under consideration. Such intelligence includes estimates of Soviet bloc capability to produce the item, degree of dependence on imports from non-Soviet areas, use patterns with military applications indicated, and information on Soviet procurement attempts, shortages and technology. The intelligence support is important not only in placing new items on the lists under accepted technical definitions but also in connection with proposed revisions in definitions and deletion of items. These proposals reflect primarily pressures for increased trade with the Soviet bloc but they often have serious security implications. The intelligence must, therefore, be

<sup>1/</sup> As finally developed the international control structure consisted of two distinguishable patterns of control applicable through COCOM against the European Soviet bloc and through CHINCOM against Communist China. The COCOM controls consisted of three separate lists corresponding to the above-mentioned control categories (embargo, quantitative control and surveillance) and the CHINCOM controls included an embargo of all the items in the COCOM lists plus an extended list of supplementary items.

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pinpointed to precise sizes, grades, and technological characteristics to show explicitly which of the items contribute significantly to the Soviet war potential.

Items currently on the export control lists have been selected from hundreds of items -- raw materials, industrial products and equipment -- reviewed by the cognizant interagency and international committees. Within the past six months each of the approximately 450 items or categories, constituting the international lists as of 1 July 1954, has been reconsidered for retention, redefinition, downgrading, or deletion from the lists.

With the formation of ORR (November 1950) the Economic Analysis Division was designated to provide intelligence support to the action agencies responsible for strategic export controls. Initially intelligence was supplied primarily through the ACEP committee structure which included an interagency policy committee, its operating subcommittee and a large number of technical task groups. Division personnel represented CIA in all of these interagency committees and working groups which were responsible for the development and revision of the export control lists.

When an interagency advisory committee was set up under provisions of the Mutual Defense Assistance Control Act of 1951, the Director for Mutual Security requested CIA participation. The AD/RR was designated as the CIA representative on this committee which became known as the Economic Defense Advisory Committee (EDAC). Following the formation within ORR of the Coordination Area and the Economic Defense Division

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(June 1952), Chief, Coordination became the CIA representative on the EDAC Executive Committee. Chief, D/E was named as alternate on both EDAC and its Executive Committee. Other D/E personnel were appointed to serve on working groups and subcommittees, including the Staff Committee which drafted the initial Battle Act lists. The technical task groups initially set up under ACEP were re-constituted to serve both advisory committee structures. Subsequently a joint committee at the operating level was established to make recommendations to both the ACEP and the EDAC. The relationships among the various interagency groups serving the economic defense agencies is shown in the chart on page 22.

Intelligence was made available directly at meetings of the interagency committees or by the submission of brief intelligence papers and at times by detailed research reports on important commodities or related groups of commodities. At the task group level the primary function of the CIA representatives was to contribute the intelligence section of the fact sheets prepared by the technical task groups. D/E analysts, accompanied by specialists from the research divisions (D/M, D/I and D/S) have participated in as many as 29 technical task groups concurrently. <sup>1/</sup> At the operating committee level the CIA representatives participated in the review of reports from the task groups which served as a basis for the committee

<sup>1/</sup> During the latter half of 1953 the facilities of the interagency Intelligence Working Group (described on page 20) were utilized in the production and coordination of intelligence requested in connection with the determination or the reconsideration of strategic ratings. The list review, however, was so accelerated in the spring of 1954 that it was impracticable to process the intelligence through the IWG.

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recommendations regarding strategic ratings. The primary function of D/E personnel in these reviews was to see that intelligence previously given was properly interpreted and to introduce new intelligence.

Pursuant to NSC 152/3 a systematic interagency review of the US Master Export Security list in terms of new and more restricted criteria was begun in early January 1954. The UK proposal to the US for the immediate adoption of a short control list precipitated an accelerated item-by-item review of all commodities on the International Lists, first for discussions in trilateral sessions (US, UK and France) and subsequently in COCOM. This program involved intensive support activity including (a) preparation of intelligence on a wide range of strategic items, (b) virtually daily attendance at meetings of the Joint Operating Committee and its informal working groups

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When ORR was organized, it was anticipated that a small staff in the then Economic Analysis Division (later D/E)<sup>1/</sup> by drawing upon the resources of CIA, particularly those of the research divisions of ORR, could provide the intelligence required by the agencies responsible for the security export controls. The ORR research program as it was developed, however, required such concentration on long term

<sup>1/</sup> The number of analysts assigned to this work was increased from four to six with the formation of D/E in June 1952.



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research that comparatively little time was available from industry and commodity specialists for current support work. As a result, the small staff mentioned above engaged in research to the extent of their limited facilities in an effort to fill the void.

During the accelerated review of the international (COCOM) lists, March-June 1954, industry and commodity specialists from the Research Area of ORR, along with several from OSI, participated actively in the production and presentation of intelligence required in the reconsideration of the strategic rating of items on the COCOM lists. Following the completion of this phase of the work, full responsibility for the production of commodity intelligence in support of the economic defense agencies was assigned to the Research Area.

With respect to commodity intelligence, D/E will continue to be responsible for meeting the intelligence requirements of the action agencies by (a) continuing representation of CIA on the interagency committees and working groups, (b) receiving the requests for intelligence support, (c) advising the appropriate staff in the Research Area regarding intelligence required to meet these requests, (d) the interagency coordination of this intelligence through IWG, and (e) making the intelligence available to the action agencies either directly or through the ACEP-EDAC committee structure. D/E is faced with a serious problem in endeavoring to meet these responsibilities in view of the transfer on 1 July 1954 of 5 analysts from D/E to the Research Area.

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Enforcement Intelligence Support

Enforcement of export controls has been a continuing concern of the US Government. The basic instrument of control has been the requirement of licenses for export to particular destinations of items on the security control lists. To prevent frustration of US export controls, the US has required exporters to obtain licenses to export items on the US control lists to most destinations outside the bloc. Congressional insistence on international cooperation in this effort took the form of certain requirements embodied in legislative enactments.<sup>1/</sup> The program of international controls through the CG-COCOM structure in Paris was undertaken on the initiative of the US in connection with this legislation.

In all these efforts intelligence support has been a basic requirement. In the processing of license applications and in making end-use checks, intelligence about foreign buyers was needed to establish their status as legitimate end-users. CIA furnished some intelligence in unevaluated form directly to the Department of Commerce and to the Comptroller's Office of ECA. ORR provided evaluated intelligence on a limited basis to these agencies and to the interagency R Procedure Committee. This work was the basis for the original effort within CIA to develop a file of individuals and firms engaging in or suspected of engaging in diverting controlled strategic items to the bloc.

<sup>1/</sup> Section 117(d) Foreign Assistance Control Act of 1948, "Cannon Amendment", "Kem Amendment", and Battle Act.

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The enactment of the "Cannon Amendment" in September 1950 and the drafting of NSC 91 in October and November were the occasion for establishing the NSC Special Committee on East-West Trade. The Committee was set up at the Assistant Secretary level to determine whether the trade of aid-recipient countries conformed to the requirements of that Amendment. Chief, Economics Division of ORE was selected by the DCI to represent the Agency on the committee. Subsequent to the establishment of ORR, the Chief of the Economics Defense Division (then called the Economic Analysis Division) became the CIA member. When the "Cannon Amendment" was replaced by the "Kem Amendment," the Special East-West Trade Committee engaged in similar activities in connection with the requirements of that legislation, including the problem of Presidential exceptions for limited shipments of prohibited goods by aid-recipient countries. Intelligence was an important ingredient basic to the findings of the committee. This committee was replaced by the Economic Defense Advisory Committee under the Battle Act but with somewhat different terms of reference.

Following the enactment of the Battle Act and the growing pressure in Western Europe for foreign markets, the need for improving the collection and processing of current intelligence on strategic trade transactions became increasingly evident. The following section describes the steps taken to date to meet this need.

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Strategic Trade Intelligence Support

The objective of the intelligence support for the strategic trade control program, initiated early in 1953, is to provide action agencies of the government with current intelligence required to support the effective implementation and enforcement of Free World economic defense measures. This centralized intelligence support was needed because of the inadequacy of incomplete and uncoordinated departmental intelligence.

The organization of a staff to carry out this program was initiated during the second quarter of 1953, in response to a request of the Economic Defense Advisory Committee (EDAC) on the basis of a staff study by the EDAC Intelligence Working Group (IWG). This program was given a strong impetus by NSC 152/2 of 31 July 1953 which directed the following course of action:

"Improve the availability and enhance the utilization of current intelligence in matters relating to the enforcement of controls."

To realize this objective it was necessary to arrange for (a) the rapid flow of current East-West trade intelligence materials to this central point from all sources geographically and from all levels of classification, (b) the processing of these materials into pertinent, significant and readily useable form, and (c) the development of procedures and administrative machinery for bringing the resulting intelligence to the attention of the action agencies. This required the development of a new Current Reference facility, provision for Transactions

Analysis and channels to action agencies. An additional function, included in the initial proposal, was that of trade analysis, which was intended to integrate the results of transactions analysis (largely relating to clandestine trade) with normal overt trade intelligence and provide meaningful aggregates of strategic trade movements to the Soviet bloc. This would provide a basis for support on policy problems relating to the structure and administration of strategic trade controls and to basic estimates of Soviet bloc requirements, capabilities and vulnerabilities. Although this third function was not approved, there has been an increasing recognition of the need for this type and degree of exploitation of international trade intelligence on the Soviet bloc.

The Current Reference Service, as developed, includes the operation of a central master file of all available strategic trade intelligence material, classified and cross-referenced by commodity, individual or firm, and country involved in strategic East-West trade transactions. This service is designed primarily to facilitate detection and analysis of procurement efforts, transactions and trade movements which constitute evasions of strategic controls. It is also the basis for D/E representation on the EDAC Administrative Action Panel and for rendering intelligence support to the Panel program which aims to:

"withhold U.S. Government privileges and facilities from foreign firms and individuals and from U.S. citizens domiciled abroad on account of activities willfully conducted by them in violation of security controls of East-West trade."

Transactions Analysis includes the screening, analysis, evaluation and clearance of intelligence on transactions, shipments and Soviet bloc procurement efforts involving strategic commodities. This operation,

supported by the Current Reference Service, is the basis for D/E representation on the Diversion Control Net (DCN), consisting of representatives of the Departments of State, Defense, Commerce, Treasury, the FOA (MDAC) and CIA. The DCN, which began operations in January 1954, was established by the Economic Defense Advisory Committee to coordinate intelligence support with action-agency efforts to prevent the diversion of strategic materials to the Soviet bloc. A continuous, direct substantive liaison is also maintained with each of the action agencies in the economic defense field and with other elements of CIA concerned with East-West trade intelligence.

The strategic trade intelligence program was operated during the second half of 1953 with a skeleton staff. This was occasioned by time required for clearances of recruited staff and in basic intelligence training of new professional personnel. The need for on-the-job training further slowed the implementation of the new program. The major activities during that period consisted of a variety of efforts aimed at improving and speeding up the inflow of the required intelligence materials and the development of a central file of classified trade intelligence material as the basic facility for current intelligence support to action agencies in this field.

By mid-1954, the classified file and the procedure necessary for its efficient operation had been brought to substantial maturity as the most complete source of timely strategic trade intelligence available to U.S. officials. The level of operations is indicated by the scanning of over 2500 documents and carding of 5-600 documents monthly during the second quarter of 1954.

The recent assumption of the responsibility for rendering intelligence support to the EDAC Administrative Action Panel, in response to repeated requests during the past year, will be only partially effective because of a lack of staff for this activity. Some useful results will be realized from the close liaison between CIA name intelligence files and the related resources of the Department of Commerce. However, it will not be possible to conduct an adequate amount of name intelligence research to make CIA support of the Administrative Action Panel program fully effective.

In the Transactions Analysis operation procedures have been developed for the timely collation, analysis and clearance of intelligence on strategic trade transactions and for presentation of the results of this processing to action agencies by means of direct flash reporting and by participation in weekly meetings of the Diversion Control Net. Screening of incoming current intelligence materials by Transactions analysts has resulted in the selection for preliminary investigation of 2-300 reports of suspect activities per month in 1954. These preliminary investigations have resulted in the further selection of approximately 60 cases per month deemed to warrant the attention of the Diversion Control Net and Foreign Service posts or to require further surveillance, research or initiation of supplementary collection. To the extent possible during 1954, compilations of diversion case materials and reports on the magnitude of clandestine trade in selected commodities have been prepared in response to requests by action agencies and U.S. officials engaged in international negotiations relating to strategic trade controls.

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With the limited staff available during the past year, it has not been possible to respond adequately to repeated requests from action agencies for analyses in depth which would indicate the extent and pattern of evasions of controls and the volume of strategic trade diversions. Furthermore, existing facilities are not adequate to satisfy the requirements of the new and expanded enforcement program on which the U.S. Government has recently embarked in connection with the revision of the international control structure.



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Shipping Controls Support

Controls over the sale and charter of ships to the Soviet bloc and over ship repairs and bunkering were regarded by the economic defense agencies as being necessary measures in an effective economic defense program designed to restrict the rate of growth of the Soviet bloc war potential, especially to make more effective the controls on exports to Communist China. Intelligence on the Soviet bloc merchant fleet, shipbuilding facilities, shipping engaged in Soviet bloc trade, ship cargoes, ships being built and repaired for the bloc in Western shipyards, and on other aspects of the shipping picture was needed by the action agencies in order to develop adequate measures in the shipping field.

Certain of this intelligence was being produced in the Services Division and in the Industries Division. ONI was producing intelligence on ship movements, to some degree on cargoes, and on shipbuilding facilities. State and Commerce were also doing some work in this field for Departmental use. There was need for a central point within the intelligence community to which action agencies could turn to obtain intelligence in this field and to present their needs for additional support. From the standpoint of the intelligence agencies, coordination of intelligence in this field for support of the action agencies was highly desirable. To accomplish these purposes, at least in some measure, a Transport Controls Desk, manned by two to three analysts, was activated in D/E<sup>1/</sup> in August 1951.

1/ Originally in the Measures Branch; became a part of the Strategic Controls Support Branch in August 1953.

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Drawing upon and working closely with S/TR, I/SH and ONI, intelligence of the nature outlined above was prepared for use of the interagency committees in the development of shipping controls and for use in negotiations in COCOM for the institution of international controls.

The major role of this D/E support activity has been that of coordination of the intelligence relevant to shipping control problems and pointing up such intelligence for the needs of the action agencies. This role has led to close working arrangements with the action agencies. On three occasions, at the specific request of action agencies, [REDACTED]  
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#### Financial Controls Intelligence Support

Prior to June 1954 the United States was the only country which had adopted transaction controls for the specific purpose of strengthening the system of security export controls. On 1 June 1954 Canada adopted transaction controls. Until about 1953 the need for intelligence on the financing of transactions in violation of the export controls has not been considered generally as urgent as intelligence on other aspects of the economic defense program. It has not been considered a responsibility of CIA to provide intelligence regarding US citizens and firms engaged in financing suspect E-W trade.

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Nevertheless, an effort has been made to keep the financing of East-West trade diversions under surveillance and some intelligence of this nature has been produced for particular needs. In connection with Strategic Trade Intelligence Support the financial aspect of diversions is an integral part of the intelligence picture. A special study of the financing of East-West trade diversions was undertaken in 1954. Basic research on the Soviet bloc gold and foreign exchange situation, undertaken in ORR and the Economic Intelligence Committee, will contribute considerable background for dealing with problems of concern to the economic defense community.

Intelligence support to economic defense in the financial field has been in the main a part time assignment of one individual. The intelligence on financing of individual transactions cases is being recorded and filed in the Current Reference Service files and is made a part of each transaction case, but the analysis of these bits and pieces remains the part-time assignment of one analyst.

Early in 1954 a subgroup of the Intelligence Working Group reviewed the need for financial intelligence in support of economic defense and the facilities then available for providing such intelligence support. The report carried a proposal for improving this support. The proposal is being reviewed by the action agencies from the standpoint of their needs and priorities for support.

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Production of Coordinated Intelligence

At the request of the Director of Mutual Security and the Secretary of State, with the approval of the Director of Central Intelligence and the Secretary of Defense, the Intelligence Working Group was established in July 1952. Its Terms of Reference were approved by the IAC.<sup>1/</sup> The fundamental purpose of the IWG was to provide at the working level an interagency mechanism for (a) drawing directly upon the resources of all components of the intelligence community in the production and coordination of intelligence in direct support of the EDAC, and (b) maintaining a close working relationship between representatives of the intelligence and action agencies. D/E has provided the Chairman and the Secretariat, including the Executive Secretary.

The IWG has served as a focal point for the production, review and coordination of intelligence in direct support of the Economic Defense Advisory Committee and other economic defense agencies. Since its inception the IWG has given consideration to 75 problems formally placed before it by member agencies. Thirty-six studies covering financial, commodity and shipping problems in the economic defense fields have been completed under IWG auspices. In addition, 40 information documents of current significance, primarily concerning movement of specified vessels and/or diversions of strategic commodities to Soviet destinations, have been issued.

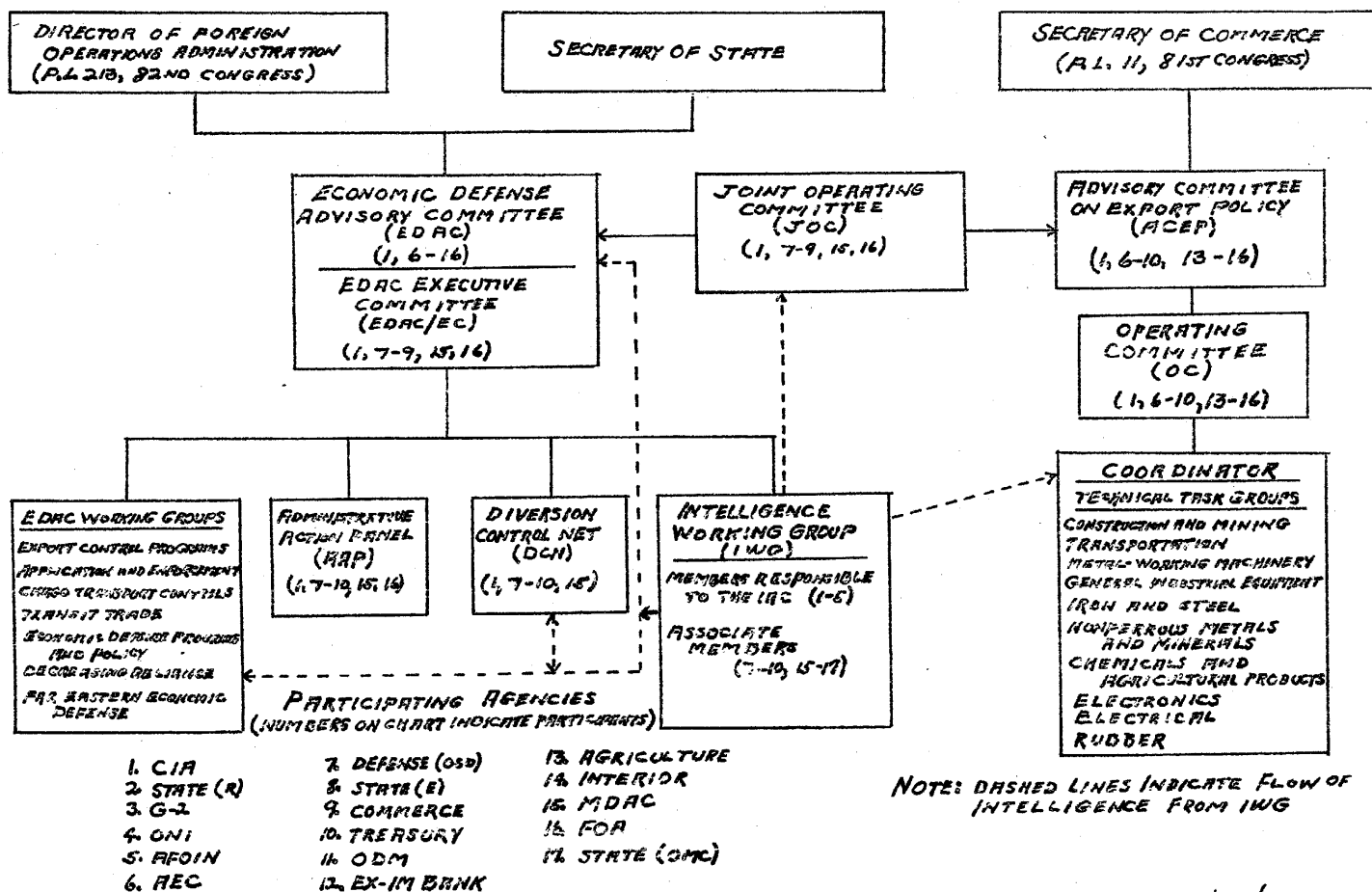
1/ IAC-D-53/1, 25 July 1952, as amended.

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Under its assigned mission to assist in improving the collection and utilization of intelligence the IWG recommended the establishment in CIA of a unit to process current economic defense intelligence and to collate such intelligence for use of operating agencies. This recommendation was subsequently implemented by CIA through the Strategic Trade Branch. The IWG also developed recommended instructions to the field for the lateral distribution of current intelligence on suspected diversion of controlled commodities to the Soviet bloc. Fourteen subgroups have been established to provide IWG and EDAC with specialized research and technical intelligence advice in specific fields of economic defense. An exhaustive examination was made of the need for intelligence in the US Government on external financial operations of the Soviet bloc.

IWG efforts to establish a comprehensive pattern of US Government requirements for the covert collection of economic defense information have not yet been successful. This problem has become urgent in terms of the needs of the enforcement program for adequate and timely intelligence on diversions of strategic commodities to the Soviet bloc.

# INTELLIGENCE SUPPORT FOR ECONOMIC DEFENSE



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CIA/RR (JULY 1954)